

Improving Infrastructure Through a Municipal Association

Blansko District, Czech Republic

Background

With reduced state subsidies for infrastructure improvements, Czech municipalities increasingly look to the private credit market to finance investments in local infrastructure. Small municipalities may find it difficult to access private credit, as they are less likely to have the necessary financial capacity, and they lack the economies of scale to lower the per capita costs of infrastructure improvements. As most municipalities in the Czech Republic are small, their inability to access private credit can have a serious impact on the quality of basic infrastructure in the country. In the face of these barriers to infrastructure development, small municipalities have begun to form strategic alliances through municipal associations. One such association is the Svazek Blansko.

Innovation

Collaboration between the municipalities in the Blansko District began in 1993 when they formed an association to manage their joint ownership of regional water and wastewater systems. It did not make sense for each municipality to enter into separate agreements with the operating company due to the high level of interdependence regarding the future of the region's water and wastewater service.

The Svazek Blansko represents 100 municipalities in the Blansko District with a combined population of 100,000 and affords members a chance to share the technical and financial burdens of investment in the water and wastewater sector. The association plans to undertake extensive improvements to existing systems and to extend water and wastewater service to under-served municipalities. Investment demands, however, exceed the income the association earns from its contract with the privatized regional water management company, and it must seek alternative means of financing infrastructure development. In mid-1995 the Svazek Blansko decided to determine the capacity of a municipal association to access private credit markets for infrastructure finance in small municipalities. The first step was to carry out a capital planning process to ascertain the association's capacity to service private debt and to prioritize projects according to technical merit. Using this analysis, the association's Executive Committee identified a project that it hoped to finance privately. The Svazek Blansko's legal and institutional framework was reviewed, focusing on the relationship among members and the contract between the association and the water management company. Both efforts highlighted issues the association needed to address to improve its chances of accessing private infrastructure financing. Priority concerns included redefining the procedure for the liquidation of assets and liabilities should the association dissolve and clarifying the management company's role in maintaining the current system. The final task will involve a resolution of legal and institutional issues and preparation and submission of a loan application for the association's priority project.

Results

The ultimate measure of this program's impact will be the association's long-term capacity to access the private credit market. However, the new political leadership in the Town of Blansko (population 20,000), the largest single member of the Svazek Blansko, has voiced reluctance to participate in the collaborative framework of the Svazek Blansko at this time. This reluctance is based on some of the same concerns identified by the legal and institutional analysis conducted for this initiative.

Summary

To finance investment in local infrastructure and to improve access to private credit markets, municipalities in the Blansko District formed a municipal association, the Svazek Blansko. The association decided to determine its capacity to access private credit markets for infrastructure finance in small municipalities. The ultimate measure of this program's impact will be the association's long-term capacity to access the private credit market.

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